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RUEHMO/AMEMBASSY MOSCOW PRIORITY 9663
RUEHLO/AMEMBASSY LONDON PRIORITY 7023
RUEHKP/AMCONSUL KARACHI PRIORITY 8590
RUEHLH/AMCONSUL LAHORE PRIORITY 4525
RUEHPW/AMCONSUL PESHAWAR PRIORITY 3181
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
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C O N F I D E N T I A L ISLAMABAD 000134

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TAGS: [ENRG](#) [ECON](#) [EFIN](#) [EINV](#) [PREL](#) [PK](#)

SUBJECT: GOP APPROVES SIGNING OF IRAN-PAKISTAN PIPELINE

REF: A. A) 07 ISLAMABAD 4578
[1](#)B. B) 07 ISLAMABAD 4274
[1](#)C. C) 07 ISLAMABAD 2593
[1](#)D. D) 07 ISLAMABAD 1059
[1](#)E. E) 07 ISLAMABAD 543

Classified By: AMBASSADOR ANNE W. PATTERSON, 1.5 (b) and (d)

[1](#)1. (U) This is an action request. Please see para five.

Pakistan approves signing of Iran-Pakistan pipeline

[1](#)2. (SBU) The GOP approved the gas sale purchase agreement with Iran on January 8, which paves the way for signing the Iran-Pakistan pipeline agreement. The agreement is set to be signed in late January, but Econoff was told that no funding sources have yet been identified. Both countries agreed to review the gas pricing formula whenever the relationship between the Japan LNG and Japan crude oil mix changes. Pakistan's request to Iran for a 1.05 billion cubic feet per day gas allocation was also approved January 8. Estimated cost of the pipeline project without India using a 36 inch pipeline drops from \$7.2 billion to approximately \$2.5 billion. India, however, may opt to participate in the project at any time. The GOP estimates that the pipeline will be operational in five years.

Comment

[1](#)3. (C) Pakistan's decision to go ahead with the Iranian pipeline is not without ramifications, which the GOP is well aware. This issue has been raised many times by U.S. officials with their Pakistani counterparts. Musharraf's statement on the Iranian Foreign Minister's January 4 visit stated that he would not tolerate any "external pressure to abandon the project." Pakistan has few good options for finding additional energy supplies. While it does have a good gas exploration-discovery ratio, it would be difficult to find enough domestic reserves to replicate the 1.05 billion cubic feet that the Iranians are purportedly offering.

[1](#)4. (C) Comment continued: In addition, as energy and power shortages in the aftermath of the Bhutto assassination have shown, Pakistan cannot satisfy its current energy needs (septel) and any significant disruption of supply has serious consequences. While Pakistan says that it has not yet identified a funding source, we have heard that Gazprom is interested. We will wait to see whether this project, once

signed, actually comes to fruition.

Action request

15. (C) Action request: Post recognizes that the ramifications for U.S.-Pakistan policy of Pakistan's decision, particularly in the absence of Indian participation. We would appreciate an analysis of the sanctions implications for both the GOP and any private Pakistani or other entities that might eventually participate in this project. In addition, we would appreciate any Washington agency suggestions on what the U.S. can do in the short term to mitigate Pakistan's energy woes. We also recommend that Washington prepare press guidance and brief the Hill on Pakistan's motivations for concluding this agreement. End action request.

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